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FISCAL IMPACT STATEMENT

LS 7500

BILL NUMBER: HB 1481

NOTE PREPARED: Jan 26, 2015

BILL AMENDED: Jan 22, 2015

SUBJECT: Public Retirement Plans.

FIRST AUTHOR: Rep. Burton

FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: X GENERAL
X DEDICATED
X FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) The bill provides that a political subdivision that participates in the Public Employee Retirement Fund (PERF) may participate in the Public Employees Defined Contribution Plan (ASA Only Plan), if the governing body adopts an ordinance or resolution that is filed with and approved by the board of trustees of the Indiana Public Retirement System (INPRS).

The bill provides that an individual who begins employment in a covered position with a political subdivision that participates in the ASA Only Plan may elect to become a member of the ASA Only Plan. It provides that, if an individual does not make an election to become a member of the ASA Only Plan, the individual becomes a member of PERF.

The bill establishes the Teacher's Defined Contribution Plan and provides that a school corporation may adopt a resolution to have some or all of its teachers participate in the Teacher's Defined Contribution Plan.

The bill grants cost-of-living adjustments in 2015 and 2016 for certain members of the: (1) Public Employees' Retirement Fund; (2) Indiana State Teachers' Retirement Fund; (3) State Police Pre-1987 Benefit System; and (4) State Police 1987 Benefit System.

Effective Date: Upon passage; July 1, 2015.

Explanation of State Expenditures: (Revised) *Indiana Public Retirement System (INPRS)*: According to INPRS, they will incur approximately \$35,000 in technology costs in regards to system requirements, testing, coding, and deployment for the COLAs for PERF, TRF, EG&C, and the Legislator Defined Benefit plan. These additional costs are a result of the formula changes contained within the bill.

The bill will require INPRS to administer the Teacher's Defined Contribution Plan. The bill requires that INPRS calculate Teacher's Defined Contribution Plan member credit rates, which may vary widely from member to member. It is likely to take a fair amount of time for the Teacher's Defined Contribution Plan to be operational, as INPRS will require IRS approval prior to enrolling new employers or members into the plan. Estimates of the start-up costs attributed to the new Teacher Defined Contribution Plan are not available at this time.

The bill's requirements represent an additional workload for INPRS outside of the agency's routine administrative functions. Therefore, existing staffing and resource levels, if currently being used to capacity, may be insufficient for full implementation.

Typically, administrative costs of INPRS are absorbed by investment earnings from the respective pension funds.

Two-Year COLA: The bill creates a formula for postretirement benefit adjustments that takes years of service, date of retirement, and current annual benefits into account for all plans except for the two State Police plans, which utilize different increase formulas under the bill. These benefit increases are in the form of a one-time cost-of-living adjustment (COLA). Table 1 reports the cost to the state due to the proposed increases.

Table 1. State Increase in Pension Benefits from COLA for the Biennium				
	Total Cost ¹	Cost Attributed to General Fund²	Cost Attributed to Dedicated Funds²	Retirees/ Beneficiaries Affected (Approx)
PERF (State)	\$56.2 M	\$26.4 M	\$29.8 M	26,000
PERF (Local)	\$114.0 M	\$114.0 M	\$0	52,000
Pre-1996 TRF	\$172.0 M	\$172.0 M	\$0	49,000
1996 TRF (Local)	\$12.3 M	\$12.3 M	\$0	4,000
EG&C Plan	\$0.7 M	\$0.7 M	\$0	200
Legislator Defined Benefit Plan	\$0.1 M	\$0.1 M	\$0	70
Indiana State Police Pre-1987	\$0.8 M	\$0.8 M	\$0	500
Indiana State Police 1987	\$1.1 M	\$1.1 M	\$0	550
TOTAL	\$357.3 M	\$327.4 M	\$29.8 M	76,320
<p>1. This analysis uses net present value of future benefits as the metric for cost to these COLA increases. This translates into the amount of funds that are needed today to invest to cover all of the future benefits payable under the bill. The analysis does not account for the amortization of these costs, which will result in yearly increases in either employer contribution rates (as applicable) or increased yearly appropriations. The cost estimates for all of the plans use retiree data as provided to Legislative Services Agency. This analysis is an estimate. A more precise cost estimate may be determined by conducting an actuarial analysis. This data is accurate as of 6/30/13. Totals may not sum due to rounding.</p> <p>2. As a general rule, the General Fund covers 47% and dedicated funds cover 53% of pension obligations for state employees.</p>				

The bill requires that employer contribution rates will only be used to pay for these pension increases in the event that sufficient funds are not appropriated for this purpose. As a general rule, the General Fund covers 47% and dedicated funds cover 53% of pension obligations for state employees.

State costs are estimated to be \$230.7 M, and local costs are estimated to be \$126.3 M. However, the bill provides that the local share may be picked up by the state if there are sufficient appropriations provided in the state budget bill for this purpose, in which case the state cost will equal both the state share plus the local share, at a total of approximately \$357 M. Assuming that sufficient appropriations are in fact made in the state budget bill for this purpose, approximately \$327.4 M of that the total state obligation will be paid out of the state General Fund and approximately \$29.8 M will be paid out of state dedicated funds. For local employees, it is assumed 100% would be covered by the state General Fund in this analysis.

For all funds except the two State Police funds, the formula is based on several factors: an increase of \$5 for each year of service (up to 30 years of service) plus a percentage increase on current annual benefits, based on the date of retirement (not to exceed \$150). The percentage increase is 0.75% for those who retired prior to January 1, 1985, 0.5% for those who retired between January 1, 1985, and December 31, 1999, and 0.25% for those who retired after December 31, 1999. The maximum available increase under this formula is \$375 in the form of a COLA.

For the State Police Pre-1987 Benefit System, increases to retirees with 20 or more years of service are based on a 0.5% increase of actual benefits currently received. For the State Police 1987 Benefit System, increases are based on a 0.375% increase of the basic monthly pension amount of a 25-year trooper.

Under this bill, the state will bear the costs of the increase for the state-funded portion of PERF (roughly 1/3 of the total PERF system), the TRF Pre-1996 Fund, the EG&C Fund, the State Police Pre-1987 Benefit System, and the State Police 1987 Benefit System. The local PERF portion and the TRF 1996 Fund could impact local units (if the cost of the COLA for local units is not picked up by the state). For purposes of the bill, costs are defined as the increase in the net present value of each pension plan.

Additional Information: Two-Year COLA: The Pre-1996 Fund is paid for through appropriations from the state General Fund and payments from the Pension Stabilization Fund.

State PERF is actuarially prefunded through employer contributions. PERF employer contribution rates are 11.2% of payroll in FY 2015. Any increases to the employer contribution rates would be reflected in contribution rates beginning in FY 2017.

The Legislator Defined Benefit Plan is actuarially prefunded by state General Fund appropriations.

The EG&C Plan is actuarially prefunded through employer contributions. Employer contribution rates are 20.8% of payroll for EG&C as of January 1, 2015. Any increases to the employer contribution rates would be reflected in contribution rates beginning in CY 2017.

The EG&C Plan and the Legislator Defined Benefit Plan are statutorily linked to any benefit increases provided to PERF recipients. The portion of the liability and costs associated with the two smaller retirement plans is very small compared to the PERF and TRF impact.

Pension obligations for the Indiana State Police are paid through appropriations from the state General Fund. For the Pre-1987 Benefit system, members typically earn a supplemental retirement benefit increase every time that 6th year troopers receive an increase in salary. The bill provides that if 6th year troopers are granted a salary increase after 2014 and the salary increase results in a larger supplemental benefit than the COLA implemented by the bill, members will receive the higher benefit increase. The last time a 6th year trooper

was granted a salary increase was in 2008.

ASA Only Plan: PERF members typically participate in a hybrid pension system, consisting of both a conventional pension benefit and an annuity savings account (ASA) which is funded by member contributions. State employees who are members of PERF have their 3% member contribution into the ASA “picked up” by the state, which means that the state, as the employer, makes the contribution on the member’s behalf. Members are then able to contribute an additional amount (either pre-or post-tax) to the ASA. Currently, member contributions are limited to 10% of their salary per pay period.

The ASA Only Plan, which began operating in March 2013, is available to new state employees who were not previously members of PERF. Employer contributions are identical for both the ASA Only Plan and PERF.

In the ASA Only Plan, the employee’s account receives a minimum of 3% and a variable rate/member rate contribution that is not greater than the actuarial normal cost of PERF, currently 4.6%. The amount not credited to the member’s account is applied to the hybrid plan’s (PERF’s) unfunded liability (11.2% less 4.6%, which equals a 6.6% contribution to PERF’s unfunded liability).

Members in the ASA Only Plan are 100% vested in the ASA Only Plan after 5 years, whereas PERF members are vested after 10 years. The vesting on the ASA Only Plan only refers to the member contribution - the 3% employee contribution and any additional employee contributions are immediately 100% vested.

Explanation of State Revenues:

Explanation of Local Expenditures: *Two-Year COLA:* The local share of PERF is funded through employer contributions (11.2% of payroll for all but a few employers as of January 1, 2015), and local school corporations pay 7.5% of payroll for 1996 TRF. Contribution rates for local PERF and 1996 TRF will be affected by the provisions of the bill, beginning in 2017.

(Revised) *Participation in ASA Only Plan:* Local employers who participate in PERF may opt into the ASA Only Plan for their new employees. If they do choose to participate in the ASA Only Plan, new employees may elect to become members of the ASA Only Plan.

This provision will affect the employer contribution rates for some local employers who opt to participate in the ASA Only Plan. While employer contributions are the same for the ASA Only Plan and PERF (currently 11.2% of payroll), the bill requires that employers “pick up” the mandatory 3% employee contribution on behalf of their employees in the ASA Only Plan. Currently, fewer than 50% of local units contribute this full 3% on behalf of their employees.

Therefore, the effective employer contribution rate for local unit employees who are members of the ASA Only Plan would be 14.2%, and not 11.2%. For those employers who do not currently “pick up” the employee contribution on behalf of the employee (or only a portion of the total 3% contribution), this would represent a contribution rate increase. For those employers who already “pick up” the employee contribution on behalf of the employee (for PERF), this will not represent a contribution rate increase.

It is unknown how many local PERF employers will use the ASA Only Plan-only option.

(Revised) Creation of Teacher's Defined Contribution Plan: The bill creates a Teacher's Defined Contribution Plan, which mirrors (with some exceptions) the ASA Only Plan. Once the Teacher's Defined Contribution Plan is operational, local school boards may opt to join the Teacher's Defined Contribution Plan. If a school board chooses to participate, then new teachers who would otherwise be eligible to be members of the Teacher's Retirement Fund (TRF) may elect to become members of the Teacher's Defined Contribution Plan.

While the Teacher's Defined Contribution Plan is similar to the ASA Only Plan, the calculation used to arrive at the employer calculation rate differs significantly from the ASA Only Plan and will increase employer contribution rates for participants in the Teacher's Defined Contribution Plan over those members in TRF.

The contribution rate is calculated as the percentage of payroll that goes towards the TRF unfunded liability plus the amount that will be directly credited to a member's individual account. According to the bill, the member's account may receive a minimum of 6%, or as much as 7.5%, of their compensation, depending upon the amount that an employee contributes to their account (the bill doubles the employee's contribution into their ASA, up to 7.5%). Employees are required to contribute 3% of their compensation to their TRF ASA (although their employer may choose to "pick up" that 3% employee contribution). Employees in the Teacher's Defined Contribution Plan may opt to contribute an additional 0.75% or more of their compensation to receive the maximum 7.5% credited to their account. The bill does not change the amount of the contribution rate that goes toward the TRF unfunded liability (currently 1.83%). Therefore, employer contribution rates (which are 7.5% of payroll currently) may be as high as 7.83% or 9.33% (assuming that the employer does not "pick up" the 3% employee contribution).

The savings choices of members in the Teacher's Defined Contribution Plan will determine the overall increase in the cost to participating employers.

Explanation of Local Revenues:

State Agencies Affected: INPRS, All.

Local Agencies Affected: Units with members in PERF and school corporations with members in TRF.

Information Sources: INPRS and Indiana State Police 2013 retiree data; Donna Brown, Indiana Public Retirement System, dobrown1@inprs.in.gov; Tony Green, Indiana Public Retirement System, agreen@inprs.in.gov.

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